

Service Date: November 9, 1992

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Application)	UTILITY DIVISION
of US West Communications for)	
Interim Approval of Centrex Plus)	DOCKET NO. 92.9.58
and Related Tariffs.)	ORDER NO. 5661

INTERIM ORDER

I. Background.

1. On December 20, 1991 US West Communications (USWC) filed tariffs with the Montana Public Service Commission (Commission) for the introduction of its Centrex Plus product (Tariff Transmittal 91-2). On January 21, 1992 the Commission decided to consider the filing within the USWC general rate case (Docket No. 90.12.86).

2. On September 17, 1992 USWC filed a request for expedited consideration of the Centrex Plus filing. USWC proposed that the Commission either grant interim approval pending a decision in Docket No. 90.12.86 or that the filing be rolled into a separate docket and a final order issued. On October 20, 1992 the Commission separated the filing into the current Docket and granted interim approval for the reasons discussed infra.

II. Service Description.

3. Centrex Plus is a service that uses central office (CO) switching equipment to route internal calls from one extension to another, to route incoming phone calls directly to the appropriate extension, to handle direct dialing of outbound calls, and to provide many call-control and call-accounting features normally associated with private branch exchanges (PBX). A PBX provides a similar service except that the necessary hardware (essentially a switch) is generally located on-site at the customer's location and connections with the Public Switched Network (PSN) are obtained through a trunk(s), unlike Centrex Plus which uses a separate dedicated line between each telephone at the customer's premises and a Network Access Register (NAR) located at the CO. A customer wishing to obtain Centrex Plus service must purchase two elements: 1) access to the PSN through a NAR, and 2) station lines. Additionally, a customer has the option to obtain access to the PSN using "Centrex Plus - 100% Access" which provides unblocked access (no NAR) for each Centrex Plus line.

4. Centrex Plus service may be functionally sub-divided into the following components: station lines, line termination and switch testing equipment, a computer software partition in the central office known as a "common block," and the NAR. For purposes of this filing USWC has defined the term "station line" as including the drop, the line, and the termination and switch testing equipment. The common block partition supplies and con-

trols the dialing pattern, code dialing access and other system-related features. The NAR governs access between the PSN and the common block and is the functional equivalent of the PBX trunk which links the PBX switch and the CO switch.

5. The Centrex Plus filing is intended to restructure the preexisting Centrex/Centron Service so as to accomplish two goals: 1) To align prices between functionally equivalent services or service elements and thereby avoid a violation of the non-discrimination provisions of the Modified Final Judgment (MFJ); and 2) to establish rates that are competitive in the marketplace. USWC's alignment effort essentially involves the NAR and Channel Connection (CC) elements. Since the NAR is the functional equivalent of the PBX trunk, USWC proposes that the NAR rate be aligned with the PBX trunk rate and set by the following formula:

$$\text{NAR rate} = \text{PBX trunk rate} - \text{CC rate} - \text{NTS COE rate}$$

6. The CC element, which appears in the Private Line Service (PLS) catalogue, includes three (3) component parts: the drop, the loop and the main distribution frame line termination. Because the CC element is common to PLS, PBX and Centrex Plus service, USWC proposes to align the price of the CC element for all three services by standardizing its pricing. The tariffed price will incorporate both distance sensitive and non-distance sensitive prices and reflect discounts based on the length of contract and volume (number of lines). USWC claims these dis-

counts are necessary to minimize rate shock for existing customers, attract new customers, and be competitive.

III. Analysis.

7. The proposed functionally-equivalent based pricing (FEBP) of the NAR element using the PBX trunk rate deviates from the cost-based pricing traditionally relied upon by the Commission. Though USWC claims that FEBP will provide consistency in pricing and avoid potential MFJ violations, it has not presented sufficient evidence for the Commission to conclude that FEBP is an appropriate pricing methodology for regulated telecommunications services. The Commission therefore requests that USWC supplement its filing with testimony and information presenting economic and policy justifications for the proposed deviation from cost-based pricing.

8. The Commission understands that Centrex Plus pricing has been the subject of formal and informal discussions between USWC and the United States Department of Justice (DOJ). However, the Commission has not been informed of the outcome of these discussions. And, while the Commission generically recognizes the antitrust implications of disparate pricing amongst functionally comparable service elements such as the NAR and PBX Trunk, USWC has not indicated whether it believes that either the MFJ or DOJ require that FEBP be used. Therefore, to the extent that USWC would have the Commission approve FEBP based upon such requirements, the Commission requests that USWC supplement its fil-

ing with the appropriate information to justify an approval on this basis.

9. In regard to the use of discounts for the CC element, the Commission lacks the necessary costing and pricing information to evaluate the propriety of these discounts and their inherent discrimination based on volume, distance and length of contract. Therefore, the Commission requests that USWC supplement its filing with complete costing and pricing information that supports the use of discounts.

10. Finally, the Commission would request that USWC supplement its filing with information sufficient to justify the use of a Customer Access Line Charge (CALC) offset in the pricing of its Station Line element. The Centrex Plus Station Line Rate (CPSLR) is currently computed according to the following formula:

$$\text{CPSLR} = \text{CC rate} + \text{NTS COE rate} + \text{Standard Feature Package Cost} - \text{CALC offset} + \text{markup}$$

11. The CALC offset proposed by USWC attempts to mitigate the effect of the FCC-mandated CALC of \$6.00 applied to all business lines into the CO. USWC's justification for the offset stems from one of the functional differences between PBX and Centrex Plus: while a PBX system can theoretically link a number of stations to the CO using a single trunk, every Centrex Plus station has a dedicated line running to the CO. Therefore, while a PBX system with one trunk would pay a single \$6.00 CALC charge, the same Centrex Plus system would pay a multiple \$6.00 CALC charge (number of stations * \$6.00). This functional dif-

ference obviously creates a competitive problem for USWC, which it has decided to counter with an offset built into its pricing. However, since the customer clearly must still pay the CALC charge, this offset appears to create an artificial price floor that does not accurately represent the costs of providing the service. The Commission therefore requests that USWC supplement its filing with information that provides regulatory and economic justification for using a CALC offset.

12. The informational deficiencies discussed above would normally preclude approval. However, there are several potential customers for the service at this time (Yellowstone County, the Billings public schools and the City of Billings) and it appears likely that the Centrex Plus tariffs eventually will be approved in one form or another. The Commission therefore believes that the public interest is best served in this instance by granting interim approval and allowing USWC to supplement its filing. Until a final order is issued in this Docket approving or denying Centrex Plus, USWC will provide the Commission with all contracts executed pursuant to the rate and other tariff authority granted in this Order and each such contract shall include a provision that advises the customer that rates and other provisions are subject to change by order of the Commission.

CONCLUSIONS OF LAW

1. US West Communications provides regulated telecommunications services within the State of Montana and is a public

utility under the regulatory jurisdiction of the Montana Public Service Commission. Sections 69-3-101 and 69-3-803(3), MCA.

2. The Commission has authority to supervise, regulate and control public utilities. Section 69-3-102, MCA.

3. The Commission has the authority to establish rates, tariffs and fares for the provision of regulated telecommunications service. Section 69-3-807(1), MCA.

ORDER

1. The tariffs filed for the introduction of USWC's Centrex Plus product (Tariff Transmittal 91-2) are hereby granted interim approval.


2. USWC shall supplement its filing with the information requested in Part III of this Order by February 3, 1993.


3. USWC will provide the Commission with all contracts executed pursuant to the rate and other tariff authority granted in this Order and each such contract shall include a provision that advises the customer that rates and other provisions are subject to change by order of the Commission.

Done and Dated this 26th day of October, 1992 by a vote of 3-0.


BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


DANNY OBERG, Chairman


JOHN B. DRISCOLL, Commissioner


TED C. MACY, Commissioner

ATTEST:


Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.